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PAGE 01 STATE 193360

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TAGS:

SUBJECT: CPE/TWP PAPER ON "THE INVESTMENT OF SURPLUSES BY
OIL PRODUCERS: POSSIBLE PROBLEM AREAS"

REF: (A) OECD 19290; (B) STATE 161690; (C) DES/NI(75)10
1ST REV.

1. FOLLOWING ARE OUR COMMENTS ON REF C AS REQUESTED BY
REF A.

.. US APPRECIATES ACCEPTANCE OF THE MAJORITY OF PREVIOUS
SUGGESTIONS (REF B) FOR IMPROVEMENTS "AT THE MARGIN" OF
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PAGE 02 STATE 193360

BASICALLY SATISFACTORY PAPER AND EXPECTS TO BE ABLE TO

ENDORSE THE DOCUMENT AT SEPTEMBER 24-25 MEETING OF TWP
PROVIDED WE CAN ACCEPT ANY FURTHER REVISIONS REFLECTING
COMMENTS OF FRG AND POSSIBLY OTHER MEMBERS. HOWEVER, WE
WOULD LIKE TO SUBMIT THE FOLLOWING ADDITIONAL/FOLLOW-UP

COMMENTS, KEYED TO PARAGRAPH NUMBERS OF REF C.

PARA 2: THERE IS AN IMPLICATION THAT THE LESS PESSI-
MISTIC ASSESSMENT AS TO MANAGEABILITY ARISES FROM THE
(PARTLY CYCLICAL) UNEXPECTEDLY LARGE DECLINE IN OPEC'S
CURRENT SURPLUS. IN ORDER TO REFLECT CONSENSUS THAT THIS

ASSESSMENT MAINLY REFLECTS FLEXIBILITY OF MONETARY
SYSTEM IN HANDLING LARGE FLOWS, SUGGEST SUBSTITUTION OF
"REINFORCE THE" FOR "WOULD JUSTIFY A" IN THE FIRST
SENTENCE.

PARA 3: DESPITE REVISIONS, IMPLICATION REMAINS THAT IT
WOULD BE BENEFICIAL FOR OECD COUNTRIES AS A GROUP--AND
PARTICULARLY WEAK COUNTRIES--TO MAKE SPECIAL EFFORTS TO
EXPAND EXPORTS TO OPEC, IF THEY COULD. MOREOVER,
"ACCELERATE" IS WRONG WORD SINCE EXPORTS TO OPEC COULD
CONTINUE TO GROW RAPIDLY IN ABSOLUTE TERMS EVEN WHILE
DECELERATING IN COMPARISON TO SHARP GAINS IN 1974 FROM
LOW 1973 BASE. SUGGEST SUBSTITUTION OF "ENHANCE" FOR
"ACCELERATE" IN SENTENCE 2 AND ADDITION OF PHRASE "IF
THAT WERE CONSIDERED DESIRABLE" AT END OF SENTENCE.
LAST SENTENCE SHOULD BE DELETED OR MODIFIED TO INCLUDE
COMPARABLE LIMITING PHRASE.

PARA 4: WE CONTINUE TO BE PUZZLED BY MEANING OF LAST
SENTENCE. IF IT IS INTENDED TO ASSERT THAT A COUNTRY
HAS LITTLE ROOM FOR MANEUVER WITH RESPECT TO ITS CURRENT
ACCOUNT POSITION, THEN THE SENTENCE IS WRONG SINCE IT
IGNORES A COUNTRY'S ABILITY TO ORIENT DEMAND MANAGEMENT
POLICIES TOWARD EXTERNAL GOALS (E.G. FRANCE AND JAPAN).
THE MEANING SHOULD BE SPELLED OUT MORE CLEARLY AND
SPECIFIED AS BEING RELEVANT ONLY TO THE OECD AS A
GROUP. SUGGEST DELETION (IN SENTENCE 5) OF "THE BALANCE
OF ADVANTAGE MAY SHIFT" AND REPLACING WITH "PREFERENCES
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PAGE 03 STATE 193360

MAY SHIFT". DELETE LAST SENTENCE AND REPLACE WITH
"NONETHELESS, FOR THE OECD AS A WHOLE THE CHOICE BETWEEN
WHETHER TO TRANSFER REAL RESOURCES OR TO INCREASE
FINANCIAL INDEBTEDNESS MAY BE RELATIVELY NARROW".

PARA8: FIRST, "INTERMEDIARY" (IN SENTENCE 3) SUGGESTS
LINK BETWEEN U.S. BANK LENDING TO FOREIGNERS AND OPEC
INVESTMENTS HERE. SUGGEST INSERTION OF "INTERMEDIARY"

BETWEEN "MAJOR AND "ROLE" IN SENTENCE 2, AND DELETION OF SENTENCE 3 AND REPLACEMENT WITH "THE U.S. BANKING SYSTEM HAS ALSO BEEN OF ASSISTANCE BY PROVIDING A SOURCE OF FINANCE TO COUNTRIES WHO HAVE INCREASED FOREIGN INDEBTEDNESS." SECOND, FINAL SENTENCE MIGHT BE REDRAFTED TO REMOVE CONNOTATION OF SATISFACTION WITH POLITICO-MILITARY FACTORS WHICH HAVE ENHANCED DIVERSIFICATION, E.G., "ASIDE FROM THE USUAL ECONOMIC CONSIDERATIONS, POLITICO-MILITARY CONSIDERATIONS HAVE LED TO SOME PORTFOLIO DIVERSIFICATION." PHRASE "WHICH HAS BECOME INCREASINGLY APPARENT AS TIME HAS PASSED" MIGHT BE ADDED AT END OF SENTENCE 5.

PARA 9: PRESUME 7TH LINE INCLUDES TYPO AND IS INTENDED TO BE UNCHANGED FROM FIRST DRAFT.

PARA 14: REVISION TO CHANGE "LONGER-TERM" TO "DIRECT" HAS NOT REMOVED DIFFICULTIES WE HAD EARLIER WITH THIS PARA. IT SHOULD BE MADE CLEAR THAT "DIRECT" INVESTMENTS ARE SMALL PORTION OF LONGER-TERM INVESTMENTS. WE WOULD DELETE SECOND HALF OF SENTENCE 1 AND ALL OF 2, AND REPLACE WITH NEW SENTENCES: "THE OVERWHELMING PORTION OF LONGER TERM INVESTMENTS HAS BEEN IN GOVERNMENT-TO-GOVERNMENT CREDITS, GOVERNMENT SECURITIES OR BONDS, OR LOANS TO OR BONDS ISSUED BY GOVERNMENT AGENCIES OR NATIONALIZED INDUSTRIES. LONG-TERM INVESTMENTS IN PRIVATE ENTERPRISE, COMPRISING A RELATIVELY SMALL PART OF TOTAL LONG-TERM PLACEMENTS, SEEM TO HAVE BEEN WEIGHTED IN FAVOR OF INDUSTRIAL "BLUE CHIP" STOCKS AND COMMERCIAL PROPERTY DEVELOPMENT. (DIRECT INVESTMENT HAS BEEN RELATIVELY INSIGNIFICANT ALTHOUGH A FEW CASES HAVE DRAWN AN UNUSUAL DEGREE OF PUBLIC ATTENTION.)"

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PARA 24: REVISIONS MADE IN FIRST THREE SENTENCES ARE NOT SUFFICIENT TO REMOVE FORTHCOMING TONE WITH RESPECT TO INDEXATION OF FINANCIAL ASSETS. SUGGEST ADDING AT END OF SENTENCE 1 PHRASE "IN THE SAME MANNER AS THE FINANCIAL ASSETS OF OTHER COUNTRIES HAVE BEEN ERODED", AND REVISE SENTENCE 2 TO READ "IT IS POSSIBLE THAT OPEC COUNTRIES MIGHT CONTENTEND THAT SOME SCHEME FOR ENSURING THEM A REASONABLE REAL RATE OF RETURN ON FINANCIAL ASSETS IS A NECESSARY PART...". DELETE SENTENCE 3. SISCO

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